



San Diego City Attorney **CASEY GWINN**

MEDIA RELEASE

FOR IMMEDIATE RELEASE: June 13, 2001

CONTACT: City Attorney Casey Gwinn: 619-533-5640 or Deputy City Attorney Fritz Ortlieb: 619-236-6318
Maria Velasquez, Press Secretary: 235-5725

CITY AND COUNTY CALL FOR SAN DIEGO RATEPAYERS TO BE AT THE NEGOTIATION TABLE WITH THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND SAN DIEGO GAS & ELECTRIC

Today, under the direction of Mayor Dick Murphy and a unanimous City Council, the City of San Diego is asking for a seat at the table in private negotiations which appear to be in process between the California Public Utilities Commission and San Diego Gas & Electric (SDG&E) regarding energy costs to be imposed on the ratepayers of San Diego City and County. The Mayor today authored a letter to Loretta Lynch, President of the California Public Utilities Commission (CPUC) and the City Attorney authored a letter to Gary Cohen, General Counsel to the Commission.

"There is a fundamental fairness principle that is at issue here," said City Attorney Casey Gwinn. "We have been successfully winning key rulings at the Commission in recent months in favor of San Diego ratepayers that, even according to San Diego Gas & Electric, could prevent the imposition of "hundreds of millions of dollars" in surcharges to consumer bills," said Gwinn. "Now, negotiations are in process without San Diego ratepayers being represented and the City has not been invited to participate."

Background

On January 24, 2001, SDG&E filed an application to the California Public Utilities Commission for a "Revenue Shortfall Surcharge." The Surcharge application seeks to recover \$577 million from consumers in SDG&E's service territory for services provided between June 2000 and January 2001. This surcharge was designed to reimburse SDG&E for what is commonly referred to as a "balancing account."

This balancing account is the result of the passage of AB 265 in September 2000. AB 265 was the legislature's response to the uncontrolled market costs singularly visited on SDG&E's consumers in Summer 2000. AB 265

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re-capped rates for residential and small commercial consumers at 6.5 cents per KWh, retroactive to June 1, 2000. SDG&E continued to buy wholesale electricity through the Power Exchange (PX) at much higher prices, thus creating the deficit which is now sought to be recovered.

AB 265 assures SDG&E that it will recover its undercollection, however it also contains express provisions which require it to offset those undercollections by providing its "utility retained generation" (URG) to consumers at cost. URG includes all generation retained by SDG&E after deregulation which is not acquired through the PX. The definition of URG has become a hotly contested issue in litigation before the CPUC over certain intermediate term contracts held by SDG&E. The City of San Diego and the Office of Ratepayer Advocates (ORA) has successfully argued that intermediate term contracts are URG. The CPUC has unanimously ruled in the City's favor on this issue, not once but twice. The most recent ruling in favor of the City was May 3, 2001.

According to its own filings in Court last week, SDG&E concedes it has realized "hundreds of millions of dollars" from three such contracts from 1998 through the end of this year. They are advocating that the shareholders of SDG&E receive the benefit of the contracts, while the consumers bear the cost of the entire balancing account. The City and ORA have been the only active opponents in the proceedings related to this issue. The City has contended that the contracts are URG and must offset the balancing account. As discussed above, the CPUC has agreed with the City and has issued a ruling which holds the contract revenues to be URG. No official determination has been made as to the exact value of those contracts but SDG&E publicly acknowledged last week that the contracts were worth "hundreds of millions of dollars."

SDG&E last week filed a petition for writ of mandate with the 4th District Court of Appeal challenging the CPUC ruling in the City's favor. On June 8, 2001 SDG&E and the CPUC entered a stipulation agreeing to hold the writ petition in abeyance pending "discussions that may have an impact on the need for resolution of the Petition for Writ of Review." The City has not been included in the settlement discussions and did not participate in the stipulation.

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